

CLASSICS IN THE MAKING.

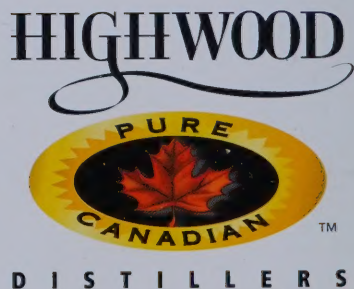
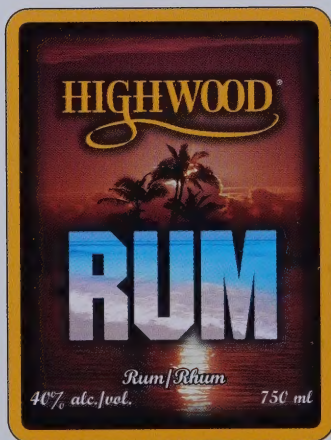
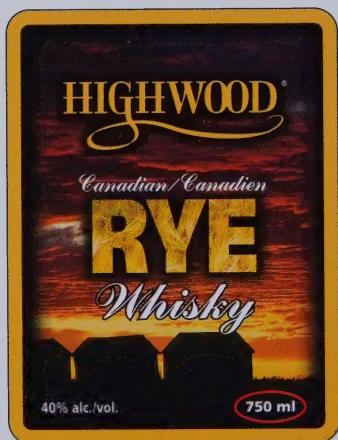
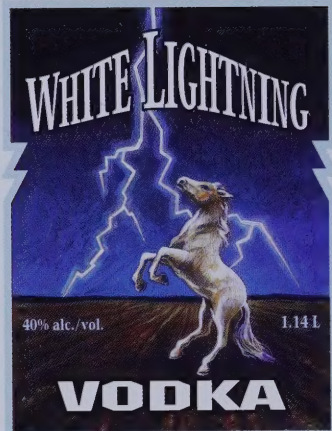
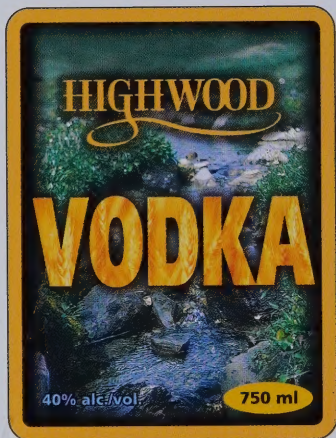
ANNUAL REPORT
DECEMBER 31, 1999



HIGHWOOD



DISTILLERS





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To the Shareholders of Highwood Distillers Ltd.

The year 1999 was another good year for Highwood. The growth trends, which began in 1997, continued.

Net income for the year was \$177,574 (\$0.007 per share) up 23% from \$144,253 (\$0.006 per share) in the previous fiscal year. Net income in each of the past four fiscal years is as follows:

Year ended December 31, 1999	\$177,574
11 months ended December 31, 1998	\$144,253 ⁽¹⁾
Year ended January 31, 1998	\$26,678 ⁽²⁾
Year ended January 31, 1997	\$18,914

(1) Year end changed from January 31 to December 31.

(2) Net income from normal operations before unusual items, which added \$632,532 to net income in that year.

Revenue for 1999 totalled \$3,914,274 as compared with \$3,707,717 in the previous fiscal year. In comparing these results please note that the results of the prior year excluded January, typically the slowest month of the year.

Gross margin improved to 40.5 % in 1999 from 39.1% the previous fiscal year.

Total expenses remained at satisfactory levels. At first glance an increase of 7.3% is evident, but when adjusted for the twelve month vs. eleven month comparison, there was a modest decline. Changes in expenses are discussed in detail in the "Management Discussion and Analysis" section of this report.

Highwood's financial position remains strong. Discussions are being finalized with Atlas Concrete Inc. (Atlas) and Highwood's bankers pursuant to which Highwood would prepay \$300,000 on the \$800,000 convertible debenture presently outstanding and held by Atlas. The prepayment would be applied to eliminate the instalment of \$150,000 due December 1, 2000 and to reduce the final payment due December 1, 2001 to \$500,000. Highwood will draw down funds on its revolving line of credit to make this payment. The benefits to Highwood will be reduced interest costs and reduced dilution of Highwood's share capital which would result if this amount of principal was converted into common shares.

During the year, Highwood obtained a listing for its Triple Fruit Plus Liqueur in Ontario, a landmark first for Highwood. Applications have been made for other Ontario listings. In 1998 Highwood produced a premium vodka for a U.S. based spirits distributor. In 1999, shipments of this unique product, which is being well received, more than doubled.

Within Highwood's product line, 1999 was a year of consolidation and preparation for new products to be introduced this year. In February 2000, we introduced Wild Rose Cream, a delicious blend of strawberry Dutch cream and tequila; Midnight Blue Sambuca and six new Highwood Longshotz flavours – popular sour fruit flavours. Market reception for each of these products has been encouraging. Further product introductions are planned for this year.

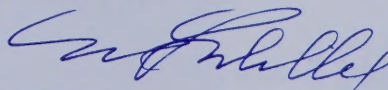
Highwood's management team was strengthened in September 1999 by the addition of Mr. Glen R. Hopkins as Vice President Operations. Mr. Hopkins has brought to Highwood knowledge and experience in distilling and related industries.

Shareholders may be aware that the criminal trial of two individuals involved in the sale in 1994 of spirits produced by Highwood (the Alleged Illegal Sales) is now underway. In order to provide background information for interested parties Highwood issued a press release on February 25, 2000. This release is posted on Highwood's web site and copies are also available from Highwood's distillery office. The web site address and other contact information is set forth on page 16 of this report.

Within Highwood's principal market areas, economic conditions have been mixed. Alberta has enjoyed, and continues to enjoy, very good economic growth which is attracting population growth. Meanwhile British Columbia, Saskatchewan and Manitoba are struggling with difficulties in the important natural resource and agricultural sectors. With improved conditions in these sectors and continuing growth in Alberta, we look forward to better overall market conditions in 2000. This coupled with exciting new products, growth in our export business, and the prospect of expanding opportunities in Ontario, should produce continuing improvement in our results.

We acknowledge and appreciate the good taste of our customers, the hard work and dedication of our employees and sales agents as well as the ongoing support of our shareholders.

On behalf of the Board



W.R. Miller
Chairman and Chief Executive Officer

High River, Alberta
March 16, 2000

MANAGEMENT'S DISCUSSION AND ANALYSIS

General

In reading this section of the annual report, it must be borne in mind that the year ended December 31, 1999 (the Current Year) consists of a normal twelve month year whereas the comparative information is for an eleven month period ending December 31, 1998 (the Prior Year).

Excluded from the Prior Year numbers are the results for January. Typically January sales are very soft and thus their contribution to sales revenue is substantially below the monthly average. On the other hand, expenses such as interest and depreciation, as well as a substantial part of selling and marketing expenses vary directly with the length of the fiscal year.

Revenue

Revenue increased during the Current Year by 6% to \$3,914,274 from \$3,707,717 during the Prior Year. Case sales increased by 10% to 110,847 cases. Revenue per case declined by 4%, primarily as a result of product mix.

Cost of Sales

While cost of sales show a increase, on a per case basis, costs were reduced by 6% in the current year. This improvement was primarily due to improved efficiencies. A major contributing factor was the purchase, late in 1998, of an additional bottling line to handle small packages. Product mix also played a part in this cost reduction on a per case basis.

Margins

Gross margins improved to 40.5%, an increase of 1.4 percentage points. Given the continuing high level of competition in the market place, this recovery is noteworthy.

Expenses

Selling and administration expenses increased by 7% to \$1,106,686 in the Current Year. Given the increase in sales, and the difference in the length of the Current and Prior Year, this increase is less than what otherwise would be expected. Control of these expenses is a continuing priority.

Costs incurred in respect of the Alleged Illegal Sales, net of recoveries, during the Current Year totalled approximately \$58,000. These costs have not been expensed as it is expected that they will be recovered in the civil actions discussed in note 3 to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Expenses (continued)

Interest on long term debt declined by 9% to \$78,488. Long term debt was reduced by the instalments due December 1, 1998 and 1999 each in the amount of \$150,000. In addition the weighted average prime rate, the basis for interest rate determination, in the Current Year was approximately 30 basis points lower than in the Prior year.

The interest cost of Highwood's revolving line of credit, which is included in the caption "Interest – other", declined to \$8,426 in the Current Year from \$17,379 in the Prior Year. Highwood's improving cash position, as discussed below, reduced the need to draw on this line of credit. The lower average prime rate was also a factor.

Depreciation increased by \$32,500 due primarily to the purchase of an additional bottling line late in 1998. As this line had nominal use in 1998, no depreciation was recorded in the Prior Year. A full year's depreciation has been recorded in the Current Year.

Income Taxes

The factors influencing the provision for income taxes are summarized in note 8 to the financial statements. The amount of current taxes of \$153,000 for the Prior Year included income taxes paid in respect of prior years.

Cash Flows

Cash flow from operations was \$294,835 as compared with \$163,823 in the Prior Year, an increase of approximately \$131,000 due to greater net income and non-cash charges in the Current Year.

The investment in fixed assets declined in the Current Year to a more normal level of \$59,863 from the high level of \$201,986 in the Prior Year. This latter year included the cost of a new bottling line.

Financial Position

Working capital increased by approximately \$248,000 to approximately \$1,606,000. Inventories increased by approximately \$170,000. The inventory of supplies and unbottled product increased by approximately \$125,000 largely due to the purchasing of supplies for the manufacture of the new products introduced early in 2000. The inventory of aging whisky increased approximately \$37,000 as barrelling was increased in response to increasing whisky demand.

The details of "accounts receivable – other" are set forth in note 3 to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Financial Position (continued)

The instalments of \$150,000 each due on December 1, 1999 and 1998 were both converted into Highwood common shares in accordance with the terms of the debenture. As a result of the 1999 conversion and net income of \$177,574, shareholders' equity has been strengthened during the Current Year to \$1,838,000 or by approximately \$328,000.

Outlook

Highwood is Canada's only distillery owned almost entirely by Canadians. It competes with multinational companies which operate on a world wide basis and dominate the Canadian distilled spirits market. Competition is intense. Highwood seeks to be nimble and pursue niche markets with unique quality products as well as offering traditional quality spirits at value pricing.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

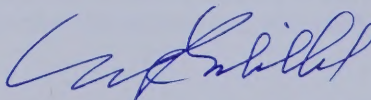
The accompanying financial statements and other financial information have been prepared by the management of Highwood who are responsible for their integrity and objectivity. To fulfil this responsibility, Highwood maintains appropriate systems of internal control and policies and procedures to ensure that its reporting practices and accounting and administrative procedures are of high quality, consistent with reasonable costs, and are designed to provide reasonable assurance that relevant and reliable financial information is produced. These statements have been prepared in conformity with generally accepted accounting principles and, where appropriate, reflect estimates based on judgements by management. The financial information presented throughout this annual report is consistent with the information contained in the financial statements.

KPMG LLP, the independent auditors appointed by the shareholders, have examined the financial statements in accordance with generally accepted auditing standards to enable them to express to the shareholders their opinion on the financial statements. Their report as auditors is set forth on the opposite page.

The financial statements have been further examined by the Board of Directors and its Audit Committee which meets regularly with the auditors and management to review the activities of each. The Audit Committee reports to the Board of Directors. The auditors have direct and full access to the Audit Committee. The Board of Directors, through its Audit Committee, oversees management's financial reporting responsibilities and is responsible for reviewing and approving the financial statements.

W.R. Miller

High River, Alberta
March 16, 2000

A handwritten signature in blue ink, appearing to read 'W.R. Miller', is written over a faint, larger version of the same signature.

Chairman and Chief Executive Officer



KPMG LLP
Chartered Accountants
1200 205 - 5th Avenue SW
Calgary AB T2P 4B9

Telephone (403) 691-8000
Telefax (403) 691-8008
www.kpmg.ca

AUDITORS' REPORT

We have audited the balance sheets of Highwood Distillers Ltd. as at December 31, 1999 and December 31, 1998 and the statements of earnings and retained earnings and cash flows for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

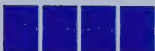
We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and December 31, 1998 and the results of its operations and cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
February 14, 2000



KPMG LLP, a Canadian owned limited liability partnership established under the laws of Ontario, is a member firm of KPMG International, a Swiss association.

HIGHWOOD DISTILLERS LTD.

Balance Sheets

December 31

ASSETS

	<u>1999</u>	<u>1998</u>
Current:		
Cash	\$70,290	\$52,656
Accounts receivable – trade	231,059	259,149
Accounts receivable – other (note 3)	133,489	-
Inventories (note 4)	1,715,594	1,545,036
Prepaid expenses	<u>42,566</u>	<u>25,711</u>
Total current assets	2,192,998	1,882,552
Fixed assets, net of accumulated depreciation (note 5)	<u>1,024,283</u>	<u>1,065,681</u>
Total assets	<u>\$3,217,281</u>	<u>\$2,948,233</u>

LIABILITIES

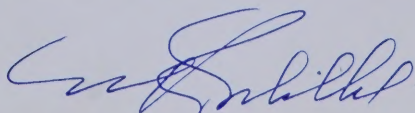
Current:		
Accounts payable and accrued liabilities	\$393,710	\$299,874
Income taxes payable	43,273	73,635
Current portion of long term debt (note 7)	<u>150,000</u>	<u>150,000</u>
Total current liabilities	586,983	523,509
Long term debt due to majority shareholder (note 7)	650,000	800,000
Future income taxes (note 8)	<u>142,000</u>	<u>114,000</u>
Total liabilities	<u>1,378,983</u>	<u>1,437,509</u>

SHAREHOLDERS' EQUITY

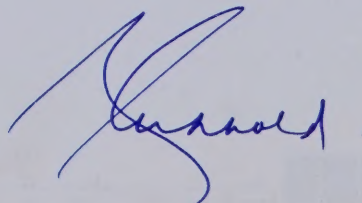
Share capital (note 9)	1,207,924	1,057,924
Retained earnings	<u>630,374</u>	<u>452,800</u>
Total shareholders' equity	<u>1,838,298</u>	<u>1,510,724</u>
Contingencies (note 10)		
	<u>\$3,217,281</u>	<u>\$2,948,233</u>

See accompanying notes

On behalf of the Board:



Director



Director

HIGHWOOD DISTILLERS LTD.

Statements of Earnings and Retained Earnings

	12 Months Ended December <u>31, 1999</u>	11 Months Ended December <u>31, 1998</u> (note 2)
Revenue	\$3,914,274	\$3,707,717
Cost of sales	<u>2,327,600</u>	<u>2,256,998</u>
Gross margin	<u>1,586,674</u>	<u>1,450,719</u>
Expenses:		
Selling and administration	1,106,686	1,033,435
Interest on long-term debt (note 7)	78,488	86,652
Interest – other	8,426	17,379
Depreciation	<u>101,500</u>	<u>69,000</u>
	<u>1,295,100</u>	<u>1,206,466</u>
Income before income taxes	<u>291,574</u>	<u>244,253</u>
Income taxes (recovery) (note 8)		
Current	98,000	153,000
Future	<u>16,000</u>	<u>(53,000)</u>
	<u>114,000</u>	<u>100,000</u>
Net income	177,574	144,253
Retained earnings, beginning of period	<u>452,800</u>	<u>308,547</u>
Retained earnings, end of period	<u>\$630,374</u>	<u>\$ 452,800</u>
Net income per share - basic	\$ 0.007	\$ 0.006
- fully diluted	\$ 0.007	\$ 0.006

See accompanying notes

HIGHWOOD DISTILLERS LTD.

Statements of Cash Flows

	12 Months Ended December <u>31,1999</u>	11 Months Ended December <u>31,1998</u> (note 2)
Cash provided by (used for):		
Operations:		
Net income	\$177,574	\$144,253
Items not affecting cash:		
Depreciation	101,500	69,000
Future income taxes	16,000	(53,000)
(Gain) loss on sale of fixed assets	<u>(239)</u>	<u>3,570</u>
	294,835	163,823
Net change in non-cash working capital	<u>(217,338)</u>	<u>354,059</u>
	77,497	517,882
Investments:		
Purchase of fixed assets (net)	<u>(59,863)</u>	<u>(201,986)</u>
Increase in cash position	17,634	315,896
Cash position, beginning of period	<u>52,656</u>	<u>(263,240)</u>
Cash position, end of period	<u>\$70,290</u>	<u>\$ 52,656</u>

See accompanying notes

HIGHWOOD DISTILLERS LTD.

Notes to Financial Statements

Fiscal periods ended December 31, 1999 and 1998

1. Significant accounting policies:

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses. Actual results could differ from these estimates.

Highwood's significant accounting policies are as follows:

Inventories:

Inventories are valued at the lower of cost and net realizable value. Cost is determined on an average basis and includes raw materials, labour and utility costs associated with production and bottling of spirits. In accordance with industry practice, current assets include spirits which, in Highwood's normal business cycle, are aged for a varying number of years.

Fixed assets:

Fixed assets are recorded at cost. Depreciation is provided using the declining balance method at annual rates as follows (in the year of acquisition 50% of the applicable rate is used):

<u>Assets</u>	<u>Rate</u>
Buildings	5%
Distillery	20%
Office equipment	20%

Bottle molds and wooden aging barrels, less residual value, are depreciated at rates of 10% and 7.5% per annum, respectively, on a straight-line basis.

Net income per share:

Net income per share – basic is calculated using the weighted average number of common shares outstanding during the year. Fully diluted net income per share assumes the exercise of share purchase options, conversion of convertible debt securities, when dilutive, and reduction of related interest expense.

Future Income Taxes

Highwood follows the liability method of recording income tax liabilities whereby future income taxes represent the income tax payable in the future as a result of including items as income or expense for accounting purposes which will result in an increase or decrease in future taxable income. The tax on the net increase in future taxable income has been computed at current income tax rates.

2. Change in fiscal year-end.

Highwood changed its fiscal year-end to December 31 from January 31, effective December 31, 1998.

HIGHWOOD DISTILLERS LTD.

Notes to Financial Statements

Fiscal periods ended December 31, 1999 and 1998

3. Issues resulting from the alleged illegal sale of spirits:

Following a lengthy investigation, during the year ended January 31, 1996 (Fiscal 1996), criminal charges were laid against two former directors, including the former Chairman of the Board of Highwood in connection with the alleged illegal sale of spirits (the Sales) which occurred during the year ended January 31, 1995 (Fiscal 1995). No such charges were laid against Highwood.

During the year, Highwood settled the remaining outstanding issues with Canada Customs and Revenue Agency (Revenue Canada) which related to GST in respect of the alleged illegal sales. Accounts receivable – other includes the resulting refund (received subsequent to the year-end) of approximately \$75,000. The remaining portion of this item (approximately \$58,000) represents costs incurred during 1999 as a result of the alleged illegal sales of spirits which Highwood expects to recover (as well as costs incurred in prior years) in the lawsuits referred to below.

Highwood continues to pursue two lawsuits to recover the costs and damages which it incurred as a result of the Sales. These suits are being pursued on a contingency fee basis by counsel. The net proceeds of any settlements have neither been estimated nor recorded. One of these suits is against the former Chairman of the Board of Highwood, being one of the two individuals referred to in the opening paragraph of this note 3. Highwood has obtained a court order attaching the former Chairman's known assets in Alberta.

4. Inventories:

	<u>1999</u>	<u>1998</u>
Finished goods	\$416,561	\$407,912
Aging inventory	690,612	653,271
Supplies and unbottled product	<u>608,421</u>	<u>483,853</u>
	<u>\$1,715,594</u>	<u>\$1,545,036</u>

5. Fixed assets:

<u>1999</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net book Value</u>
Land	\$53,885	-	\$53,885
Buildings	704,761	\$292,144	412,617
Distillery equipment	1,006,298	740,939	265,359
Bottle molds	48,014	26,821	21,193
Office equipment	111,347	59,113	52,234
Barrels	<u>232,566</u>	<u>13,571</u>	<u>218,995</u>
	<u>\$2,156,871</u>	<u>\$1,132,588</u>	<u>\$1,024,283</u>

<u>1998</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$53,885	-	\$53,885
Buildings	690,291	\$270,844	419,447
Distillery equipment	970,322	679,139	291,183
Bottle molds	48,014	22,021	25,993
Office equipment	100,590	47,412	53,178
Barrels	<u>234,119</u>	<u>12,124</u>	<u>221,995</u>
	<u>\$2,097,221</u>	<u>\$1,031,540</u>	<u>\$1,065,681</u>

HIGHWOOD DISTILLERS LTD.

Notes to Financial Statements

Fiscal periods ended December 31, 1999 and 1998

6. Bank Loan:

Highwood has a revolving demand line of credit to a maximum of \$600,000 bearing an annual rate of interest at bank prime plus one percentage point. The bank loan and a guarantee, in the amount of \$250,000, of the lender to the issuer of a bond held by Revenue Canada (in respect of Highwood's obligations to Revenue Canada), are secured by: (a) a debenture with a first fixed charge covering the distillery plant, inventory and equipment; (b) a floating charge over all other assets; and (c) a general assignment of book debts.

7. Long term debt due to majority shareholder:

	<u>1999</u>	<u>1998</u>
Convertible debenture due December 1, 2001, with interest at prime plus two percentage points; repayable at the rate of \$150,000 on December 1 annually and convertible, at the holder's option, at the rate of \$0.10126 per share.	\$800,000	\$950,000
Less portion due within one year	<u>150,000</u>	<u>150,000</u>
	<u>\$ 650,000</u>	<u>\$ 800,000</u>

The convertible debenture is held by Highwood's majority shareholder and is secured by the same assets as the bank loan referred to in note 6 subject to the prior interest of the bank. Highwood paid interest on this debenture during the year of \$78,488 (\$86,652 during the prior eleven month period).

8. Income taxes:

Income tax expense differs from that which would be expected by the application of the combined statutory federal and provincial income tax rates of 44.6% in each fiscal year as follows:

	12 Months Ended December <u>31, 1999</u>	11 Months Ended December <u>31, 1998</u>
Income before income taxes	<u>\$291,574</u>	<u>\$244,253</u>
Expected income tax expense	130,042	\$108,937
Manufacturing and processing credit	(16,000)	(22,750)
Other	<u>(42)</u>	<u>14,813</u>
Income tax expense - net	<u>\$114,000</u>	<u>\$100,000</u>

The significant components of future income tax (assets) and liabilities are as follows:

	<u>1999</u>	<u>1998</u>
Excess of depreciation and other costs claimed for tax purposes over that recorded in the accounts	\$150,000	\$124,000
Costs not yet claimed for tax purposes	<u>(8,000)</u>	<u>(10,000)</u>
Net total	<u>\$142,000</u>	<u>\$114,000</u>

Income taxes paid during the year ended December 31, 1999 totalled \$116,362.

HIGHWOOD DISTILLERS LTD.

Notes to Financial Statements

Fiscal periods ended December 31, 1999 and 1998

9. Share capital:

Highwood's authorized capital consists of an unlimited number of common voting shares without nominal or par value and an unlimited number of preferred shares, issuable in series, with rights to be determined upon issuance.

The following is a summary of the changes in issued common share capital during the periods then ended:

	12 months ended December 31, 1999		11 months ended December 31, 1998	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Balance, beginning of period	23,725,000	\$1,057,924	22,225,000	\$907,924
Shares issued:				
On conversion of instalment due on debenture	<u>1,500,000</u>	<u>150,000</u>	<u>1,500,000</u>	<u>150,000</u>
Balance, end of period	<u>25,225,000</u>	<u>\$1,207,924</u>	<u>23,725,000</u>	<u>\$1,057,924</u>

As at December 31, 1999 common shares have been reserved to be issued pursuant to options granted to officers and employees. A summary of changes in shares subject to options outstanding is set forth below:

	12 Months Ended December 31, 1999	11 Months Ended December 31, 1998
Number of shares subject to option, beginning of period	825,000	1,125,000
Shares subject to options terminated	(300,000)	(375,000)
Shares subject to options granted	<u>600,000</u>	<u>75,000</u>
Number of shares subject to option, end of period	<u>1,125,000</u>	<u>825,000</u>

Details of the options outstanding as at December 31, 1999 are as follows:

<u>Number of shares Subject to option</u>	<u>Number of Shares vested</u>	<u>Price</u>	<u>Expiry Date</u>
150,000	75,000	\$0.105	2001
150,000	75,000	0.125	2001
450,000	300,000	0.14	2002
75,000	25,000	0.12	2003
150,000	-	0.105	2004
<u>150,000</u>	<u>-</u>	0.11	2004
<u>1,125,000</u>	<u>475,000</u>		

In addition, 7,900,454 common shares have been reserved to be issued in the event that the convertible debenture due December 1, 2001, described in note 7 above, is converted into common shares.

HIGHWOOD DISTILLERS LTD.

Notes to Financial Statements

Fiscal periods ended December 31, 1999 and 1998

10. Contingencies:

Mr. Philip A. Peterson (Peterson), the former Chairman of the Board of Highwood, has initiated lawsuits against Highwood seeking approximately \$1.8 million for wrongful dismissal and \$3.5 million for damages. Management believes these suits are without merit and are being vigorously defended. Highwood has filed a lawsuit against Peterson as stated in note 3.

11. Related party transactions

To facilitate the payment of supplier accounts denominated in U.S. funds, during 1999 Highwood purchased, at market rates, U.S. \$165,400 from Atlas Concrete Inc., majority shareholder, at a cost of \$247,253.

12. Financial instruments and credit risks

The carrying amounts of all current assets, except inventories, and current liabilities approximate fair value due to the short maturity of those instruments. Accounts receivable are, for the most part, due from provincial liquor boards. The carrying amount for long-term debt approximates fair value due to the floating interest rate on the debt.

13. Uncertainty due to the year 2000 issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, without any adverse consequences to February 14, 2000, it is not possible to conclude that all aspects of the year 2000 issue that may effect the entity, including those relating to customers, suppliers, or other third parties, have been fully resolved.

14. Segment information

Highwood operates in one industry, the distilling and marketing of spirits. Substantially all of Highwood's products are sold in Canada.

15. Comparative Amounts

Certain prior period balances have been reclassified to conform with current presentations.

HISTORY

Highwood Distillers Ltd. was established in 1974 in High River, Alberta, on the eastern slopes of the Canadian Rocky Mountains. Situated in an ideal grain growing area, with an ample supply of fresh pure water from its own well, Highwood produces, from wheat and rye grains, high quality alcohol, a key ingredient for the Highwood family of fine products.

Highwood became a public company in 1989 with its shares listed for trading on the Canadian Venture Exchange. In 1996, Atlas Concrete Inc. of Calgary became the majority shareholder of Highwood.

All of Highwood's products are available in Alberta. Certain of Highwood's products are listed and available in British Columbia, Saskatchewan, Manitoba and Ontario. Like its products, Highwood is truly Canadian and is uniquely positioned to compete with the multinationals that dominate the Canadian and world-wide spirits industry.

Highwood invites you to enjoy its quality products. Cheers!

DIRECTORS

Jack C. Anderson	President, Cal-Gas Inc.	Calgary
Gerald A. Berkhold	President, Atlas Concrete Inc.	Calgary
Ronald L. Graham	Chairman and CEO, Graham Group Ltd.	San Diego
H. Douglas Hunter	President, RFM Capital Corporation Ltd.	Calgary
William R. Miller	Chairman and CEO, Highwood Distillers Ltd.	Calgary
Marlin L. Moore	Partner, Moore, Wittman, Phillips	Calgary
Willard H. Yuill	President and CEO, Monarch Communications Inc.	Medicine Hat

OFFICERS

William R. Miller	Chairman and CEO
Barry W. Wilde	President
Glen R. Hopkins	Vice-President Operations
Ronald R. Stothers	Vice-President
Gerald A. Berkhold	Secretary

Distillery

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e-mail hrplant@telusplanet.net

Web Site www.highwood-distillers.com

Calgary Office

Suite 1010, 1015 – 4th St. SW
Calgary, Alberta T2R 1J4
Phone (403) 216-2440
Fax (403) 234-9609
e-mail hwdistil@telusplanet.net

Share listing (HDL)

Auditors

Bankers

Lawyers

Transfer Agent

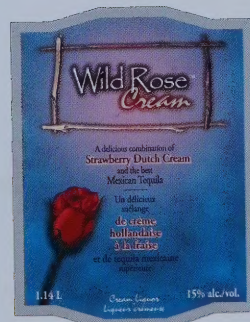
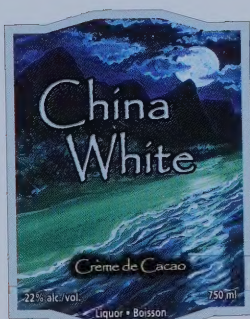
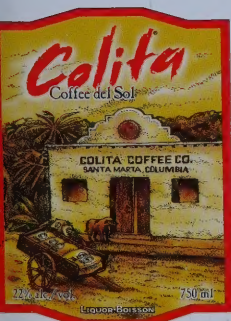
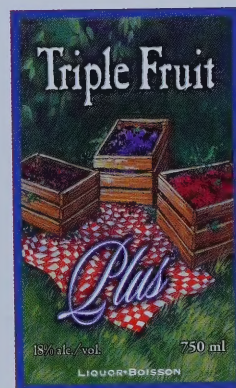
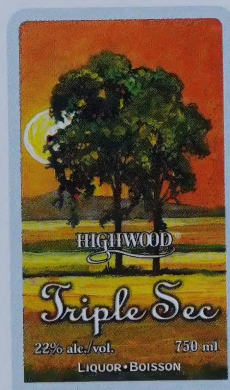
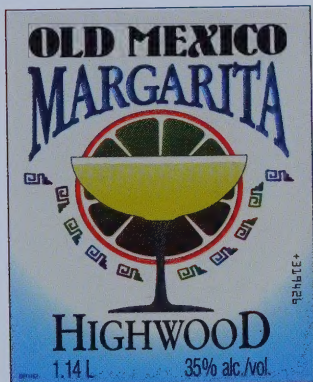
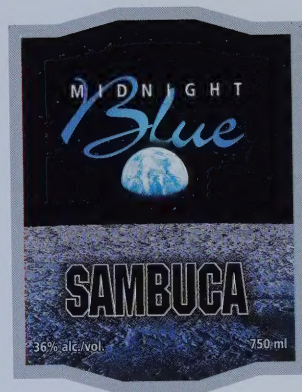
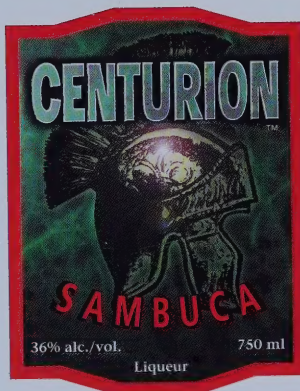
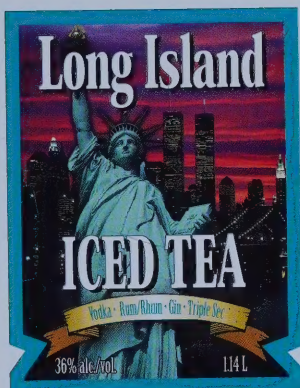
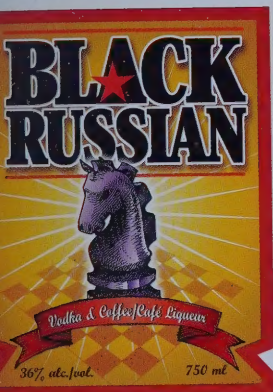
Canadian Venture Exchange

KPMG LLP

National Bank of Canada

Macleod Dixon

Valiant Corporate Trust Company



HIGHWOOD



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